

ANZ 2010 Annual General Meeting

Address by Mike Smith, Chief Executive Officer, ANZ

Many thanks John and good morning everyone.

Last year I spoke to you about how ANZ is managing its business in the new world created by the global financial crisis.

I also talked about how our super regional strategy is even more appropriate for the very significant changes that are taking place in the world.

And how, despite the issues facing many western economies, our strategy and the management team we have put in place are delivering results.

Over the past three years, we've established a management team of very experienced bankers from a diverse set of backgrounds – a team which I believe is world class.

Let me introduce the other 11 members of our Management Board to you and tell you a little bit about their experience.

First there is Graham Hodges, the Deputy CEO.

Graham has been in banking and international finance for 32 years. He is one of our most experienced business bankers. Most recently he was CEO of our New Zealand business.

Peter Marriott is here on stage with me. Peter is regarded as one the best Chief Financial Officers in Australia. He has been a banking specialist for 31 years including 17 years at ANZ.

Then Phil Chronican. Phil is the CEO of the Australia Division which is ANZ's largest business. He is also a career banker with 28 years experience, having joined us last year from Westpac.

Then Shayne Elliott. Shayne is CEO of Institutional. He has 24 years experience in banking and he joined us last year from investment bank EFG-Hermes after a 20-year career with Citibank.

Then Alex Thursby, our CEO Asia Pacific Europe and America, who is a career banker with 24 years experience.

Alex joined ANZ just over three years ago from Standard Chartered Bank where he held senior roles in Asia, Europe and the Middle East.

I also want to introduce David Hisco. David is CEO of ANZ National in New Zealand.

He is a long standing ANZ executive with 30 years experience in commercial banking including three years running Esanda.

Then there's Chris Page, the Chief Risk Officer. Chris can't be with us today but he's one of the most experienced risk professionals in banking. He previously worked with me at HSBC where he was Chief Risk Officer. Chris has been in banking now for 37 years.

Next, there's Joyce Phillips, the Group Managing Director Strategy and Marketing. Joyce has 23 years experience in banking and financial services including a career with Citigroup in Asia and the United States.

David Cartwright is our Chief Operating Officer. David has 28 years experience in banking. He is a technology and operations specialist having worked for much of his career with Barclays Bank.

Then Susie Babani. Susie is the Group Managing Director of Human Resources. She has over 20 years experience in banking and financial services, including 18 years with HSBC working in the United Kingdom, China, Canada and the United States.

And finally, there is Anne Weatherston. Anne joined ANZ earlier this year as our Chief Information Officer. She has had a 24 year career in banking more recently with the Bank of Ireland and Banco Santander

My point in highlighting the 330 years of banking experience on our management board is my belief that there is no substitute for bankers who have been through the cycles of good and bad times and who have learnt how to deliver value for shareholders.

Today I want to talk to you about that very different world we are living in and how we are both responding to those changes and actually using them to create opportunities for ANZ.

While anyone with a mobile phone or a teenager in the family understands how fast technology is moving, the reality is that the business, political and economic environments are changing just as fast.

Let me give you one example that's very close to home.

John mentioned that this year marks our 175th anniversary.

Until 2007, I think most people around the world took bank longevity for granted. While banks are different to other companies, the management principles of survival and success are similar.

So, when we look at the 50 largest companies listed on the Australian Stock Exchange 30 years ago, and then look forward ten years to 1990, you can see only 17 of those original 50 were still on the list.

If we move forward to 2010, you can see only nine of the original 50 are still on the list.

I'm pleased to say ANZ is one of those nine.

What this demonstrates is that while the journey from a good company to a great company can take a long time; the journey from a good company to a mediocre one or worse, can happen very quickly.

And globally, that journey is accelerating.

I believe there are three important elements that help create enduring and sustainable companies particularly at times of rapid change and volatility.

The first is a measure of financial conservatism and discipline. All public companies have to balance shareholder expectations for short-term gains against investment that ensures long-term performance and value creation.

If you look at the world during ANZ's 175-year history it becomes depressingly clear that all the financial crises have one common theme.

Excessive borrowing by governments, by banks, by companies and by individuals makes policy makers, executives and investors look like geniuses until the boom ends.

I'm pleased to say that a measure of financial conservatism, good management combined with sensible regulation served ANZ and the other major Australian banks well during financial crisis. Today, we are four of only 11 AA-rated banks left in the world.

The second is a strong sense of identity and purpose. This extends from the values we have as a business; to the core purpose we serve in the economy; to the value we deliver to the communities in which we operate and most importantly to our customers.

The final element is the ability to foster innovation in thinking and the agility to respond to shifts in the economic, technological or competitive environments that I mentioned earlier.

For most banks a long and safe history is an aspiration. While ANZ's history is long, it has been anything but dull.

ANZ has transformed itself, several times over, moved hemispheres, merged with other banks; it's sold assets and built its business with its customers. Our predecessors did this with vision, some good luck, some bad luck, and at times, through necessity.

In late 2007, we took a major decision.

It was clear to us that there was a once in a century shift taking place. The balance of global economic power was moving from west to east and this was going to have major ramifications for every country in the world but particularly for Australia and New Zealand.

So we publicly announced a five-year roadmap to create a leading super regional bank in the Asia Pacific region.

Despite the fact that in Asia, excluding Japan, annual GDP growth has averaged over 7¹/₂ per cent year for 20 years ... and that even in lower growth economies like Japan, which have deep pools of savings that could help transform the Australian banks' structural dependence of offshore borrowings three years ago when we announced the ambition to be a leading super regional bank, our shares were marked down.

The conventional thinking was that Australian companies failed outside Australia; that Asia was just an emerging market; that its people didn't have a great deal of wealth; and that moving into Asia was risky.

Of course, as the market here in Australia opens its eyes to Asia's importance, our share price is now out performing our peers for the first time since we set out our aspiration in late 2007.

The point is that our critics in 2007 now see - not the risks of a strategy which engages with Asia - but the risks of having a strategy that doesn't engage with Asia.

Our strategy is not just about Asia - it's about our core domestic markets in Australia, New Zealand and the Pacific - and their connectivity with Asia and the connectivity between economies within Asia.

In our key domestic markets in Australia and New Zealand growth is now being driven by Asia. This reflects the linkages which are continuing to deepen through immigration, through exports of hard and soft commodities, through imports of manufactured goods, through education and through tourism.

Today, China, Japan, Korea and India make up four of Australia's five largest trading partners.

Our strategy is clear and differentiated - we are the only Australian bank to give shareholders a material exposure to Asia's growth - and it's perfectly aligned to what's going on in the world as the drivers of global economic growth shift to Asia.

Of course, while strategy is important, I read a quote recently which went along the lines of: 'Ideas are two a penny. Perfection is in their execution'.

This is why I am so pleased with our 2010 results because they demonstrate that ANZ now has real momentum in every area of our business.

It reflects three years of hard work to make ANZ a more predictable organisation for shareholders and a better place for our customers to do business.

John has spoken to you about the overall Group result but I'd like to highlight the underlying performance of our Divisions.

In Australia, while income and expenses were impacted by acquisitions, in particular the purchase of the remaining 51 per cent of ING Australia, Phil Chronican and his team have delivered a 42 per cent lift in profit.

A feature of Australia's performance was growth in market share. Lending growth of 12 per cent was driven primarily by 1.4 times system growth in mortgages while household customer deposits grew 11 per cent or about 1.2 times system.

We have achieved this while remaining the number one retail bank for overall customer satisfaction among the major banks.

In Asia Pacific Europe and America, you can see that earnings from Partnerships and Institutional were the main drivers of a 21 per cent lift in profit to US\$620 million.

Alex Thursby and his team have built what was a presence in Asia into a significant banking business. And our Pacific business has continued to perform well.

And this year, the Asia Pacific division has taken a significant step forward with the acquisition of the Royal Bank of Scotland businesses in six Asian countries, and through organic growth.

In Institutional, Shayne Elliott and his team have done a great job turning around our Institutional business and growing profit 23 per cent.

Under-pinning this performance is the connectivity that our super regional strategy delivers. Inter-regional client flows were up 10 per cent and flows into Asia from elsewhere in the network were up 20 per cent.

In New Zealand, David Hisco and his team are setting a new course for our business as the economy begins to stabilise.

A 48 per cent decline in the provision charge was the main driver of a 40 per cent rise in New Zealand Dollar profits off what was admittedly, a low base in 2009.

Our market weight meant New Zealand was a drag on the Group as the recession there worsened.

Of course, the reverse is now true as the recovery gets underway and I'm increasingly optimistic about New Zealand both as a country and as an important part of the ANZ Group.

As well as delivering a strong financial performance in 2010, we also made good progress with our strategic agenda through acquisitions and divestments in Asia, Australia and New Zealand.

John has already spoken to you about the milestones we've reached.

One aspect that I'm particularly pleased about is that we now have the capability to look at opportunities we couldn't have looked at three years ago.

We have built management depth and experience throughout the bank and we have achieved critical mass in our key franchises.

At the same time we have maintained our acquisition disciplines.

We have established clear criteria for looking at acquisitions – that, they're on strategy, they create shareholder value within the short to medium term and that we have the capability to integrate and to effectively run these businesses.

As you know, we have and we will walk away from opportunities that don't meet these criteria.

Turning to the outlook for the global economy, the world is turning out pretty much as we expected with a great sense of fragility in the US and Europe while Asia and other developing economies continue to grow.

During the 20 years or more prior to the global financial crisis, we lived in a world where things were steadily improving everywhere however this is not the case any more.

The United States is struggling with near double-digit unemployment and a huge budget deficit.

The United Kingdom is entering a new era of austerity, with severe cuts in public spending.

The European Union is also struggling and the sense of crisis that's enveloping countries like Greece, Ireland, Portugal and Spain is raising fundamental questions about the future of its single currency.

Today we're operating in a more complex world where an unusual combination of:

- consumer, business and government de-leveraging;
- international and domestic re-regulation;
- and the questions that are being raised by the structural challenges in the US and Europe are all coming together to create an uncertain and volatile operating environment.

For us however, there's still plenty of room for optimism. This is because of the shift that's occurring in the world's political and economic tectonic plates toward Asia - particularly China and India.

This will help ensure Australia remains strong however there are some very important challenges ahead.

Despite being supported by Asia's growth, we need to remember that for the past two years we have been riding the wave of billions of dollars of stimulus spending.

This highlights that without a renewed commitment to bold economic reform and productivity improvements, Australia's current growth rates are unlikely to be sustained.

New Zealand, to its credit, has recognised the importance of reform.

Australia now also has to breakout of its short-term mindset and act decisively on economic reform - this includes pro-growth tax reform, infrastructure investment and more support for education and research.

Allowing a populist backlash against our most successful businesses – whether they be miners, telcos or banks – and allowing a long-standing commitment to open markets and globalisation to be undermined - will inevitably lead to a less prosperous future for all of us – shareholders and the community alike.

In this regard there has been a great deal of debate in Australia in recent months about the four major banks. One of the key issues is competition in the banking sector.

We believe this is an important discussion because a strong banking system has been, and continues to be, critical to Australia's economic success and therefore our national prosperity.

We need to remember that Australia's long history of stable and safe banks is one thing that sets us apart from other OECD countries and allowed us to recover from the effects of global financial crisis far more quickly.

Australians can take reassurance from the way the Australian Government, the Reserve Bank, APRA and the major banks worked closely together during the financial crisis to ensure that our economy did not enter a recession and as a country we maintained job growth.

However we also need to accept that the global financial crisis has created a very different world – not just for banks but for all sectors of the economy.

We support practical measures which will increase competition and consumer choice but without increasing the cost of banking.

We also need to accept in this new environment that we need to be even more sensitive to community concerns when we make commercial decisions, and we need to do even more to communicate and engage with our external stakeholders.

But we also believe it's important to have a discussion where facts and sound analysis are put on the table, not opinions and empty rhetoric.

A critical issue that we have to face up to, is the fact that banks now have permanently higher costs of doing business.

As John told you, these include continuing pressures on wholesale funding costs and at the same time, rates for deposits have never been so high compared to short-term wholesale rates.

We also have to carry significant costs associated with the new international capital and liquidity requirements.

We all know how sensitive the implications of these issues are – and how matters, which seem clear to us as bankers and business people, are actually complex and emotive for some of our customers and the community.

One result is that we simply have to think differently about our business. Lower credit growth and the higher costs of doing business mean we'll need to drive productivity and innovation even harder to stay ahead of the game.

We need to change – we need to streamline our structures and do things in a new and different way.

Our customers want simpler processes. They want convenience, they want security, and they want more innovation from us - and this also helps drive medium and long-term value for shareholders.

As I've said, we also need to communicate the implications of the changes more regularly and more openly with our customers and the wider public.

We're committed to playing an active role in this discussion and to highlight the importance that safe, well managed and competitive banks play in our economy.

The irony in all this of course, is that in Australia we are currently having an inquiry into the banks who are safe and successful; while in the US and UK there are inquiries into why banks failed or had to be bailed out by their government in turn adding to huge budget deficits.

At ANZ though, we've made the calls early on the trends that are reshaping our business and that are opening up new opportunities - and we want to continue to be ahead of the game.

Three years after announcing our super regional ambition, we are delivering on the promises we made to you.

We're now increasingly recognised for our geographic diversification which focuses on the world's best performing economies and the increasing linkages that our corporate and personal customers have with the region.

And we've also established a world-class team of experienced bankers throughout the company to take advantage of growth opportunities and to deliver on our strategy.

ANZ may be 175 years old but we are young at heart – and we'll continue to focus on creating value and performance for our shareholders.

Let me join with John in thanking all 48,000 people at ANZ for making such an important contribution during what remains a difficult time.

I'd also like to thank the Chairman and the board. Being a non-executive director of an Australian public company can be at times a somewhat thankless and daunting task. Your board takes its responsibilities incredibly seriously – I'd like to thank them for the support and commitment that they give to your company.

And finally, I'd like to thank our 410,000 shareholders for your continuing support and for continued belief in the future of this great bank.

Many thanks for listening to me today and I would like to take the opportunity to express the compliments of the season to you all.

Many thanks.